

# THE I/FAX



ADMINISTERED BY ILLINOIS STATE TREASURER ALEXI GIANNOULIAS

Contact us at [www.illinoisfunds.com](http://www.illinoisfunds.com) or 1-800-346-7414

JANUARY/FEBRUARY 2008

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Yesterday's Rates 2/19/08

## Money Market Fund

2.912%

## Prime Fund

3.349%

## Illinois Funds annual audit available online

The Illinois Funds annual audit of the financial statements for Fiscal Year 2007 is complete. Again this year, we are pleased to report The Illinois Funds received an unqualified opinion with no audit findings. As of June 30, 2007, the Money Market Fund had over 6,200 accounts totaling over \$5.7 billion in assets. The Prime Fund had over 1,000 accounts totaling over \$1.3 billion in assets.

The audit is available on The Illinois Funds homepage, [www.illinoisfunds.com](http://www.illinoisfunds.com). Click "The Illinois Funds" on the top right corner, then "Annual Financial Audit" on the left side of the page to print a copy. If you cannot print a copy from our homepage, you may request a copy of the audit via email to [Springfield@illinoisfunds.com](mailto:Springfield@illinoisfunds.com). Or, you may fax a request to (217) 524-1269 or call us toll-free at 1-800-346-7414. Thank you for your continued participation in The Illinois Funds.

Notice: If you no longer wish to receive the I-Fax, please let us know by faxing a request to (217) 524-1269. Thank you.

## MARKET PERSPECTIVE

On January 22, the Federal Open Market Committee surprised the markets with an aggressive 75 basis point inter-meeting cut in the fed funds target rate, bringing the rate for overnight loans of reserves from bank to bank to 3.5 percent. The Fed also cut the discount rate 75 basis points to 4.0 percent. With only a little over a week until the next meeting, a lot of market participants questioned the timing of the action taken by the Fed. A lot of investors felt the Fed panicked after global equity markets tumbled on what many now believe was a reaction to a rogue trader from Society General and the unwinding of his illegal positions, costing the bank billions in losses. The Fed responded by saying that it acted prematurely because "broader financial market conditions had continued to deteriorate and credit had tightened further for some businesses and households." Whether you believe the Fed acted to rescue the equity markets here at home or whether it acted to stop accelerating economic deterioration and increased risks to growth, it definitely caught the markets off guard. The last time the Fed had an inter-meeting cut was after Sept. 11, 2001, and the last time it cut by more than 50 bps was in 1984. Eight days later, the Fed cut another 50 basis points, lowering the fed funds rate to 3.0 percent and the discount rate to 3.5 percent. There was one dissenting vote; Richard Fisher voted to keep rates unchanged. In just a little over a week, the markets had received a whopping 125 basis points in rate cuts.

While many believe that the current crisis is credit driven and not interest rate driven, the pressure continues to mount on Chairman Bernanke and the FOMC. Since the cuts in January, it has become evident through economic data that the odds of a recession are growing. Some economists and analysts will argue that we're already in one. Fourth quarter GDP slowed to an an-

nualized rate of .6% while economists had forecast the economy to expand by 1.2%. The last week in January saw jobless claims rise by 69k to 375k vs. a forecast of 319k. And the ISM's (Institute for Supply Management) non-manufacturing index plunged to 41.9, falling to its lowest level since October 2001. A level below 50 means the economy is contracting. Throw in more foreclosures and a continued housing depression, banks and financial institutions troubled by sub-prime investments and further write-downs, bond insurers in fear of ratings cuts, and tighter credit standards, and you can see that Bernanke and his bunch have their work cut out for them. Not to mention keeping inflation in check in the meantime. While policy makers have left the door open for future rate cuts, the markets have already priced one in. The fed funds futures contracts have priced in a 100% chance of a 50 basis point cut on March 18.

In treasury markets, bonds continued their bull run driving yields below benchmark levels. As of month-end the 2yr note yielded a 2.09%, the 5yr a 2.76%, the 10yr a 3.59% and the 30yr bond a 4.32%. While investors expect more rate cuts in the near term, they are beginning to hedge future inflation risks by selling the long end and buying the short end of the curve. We anticipate the Fed may cut by another 50 basis at the next Federal Open Market Committee meeting March 18 and possibly one more time in April or June. After that, we expect the rate to remain somewhere between 2.5% - 2% through the remainder of 2008 before heading back up sometime in 2009. We will continue to monitor market developments and keep a close eye on further risks to growth while looking out for signs of inflation down the road. At month-end, the Money Market Fund's weighted average maturity (WAM) was 3 days, and the Prime Fund's WAM was 31 days.



# Safety, Liquidity and Yield



Illinois Funds yields for the period ending 12/31/07

## Money Market Fund (Daily Liquidity)

## Prime Fund (7-day Liquidity) after 30-day minimum term

Net Portfolio Assets (in millions)	\$4,487	Net Portfolio Assets (in millions)	\$1,842
Monthly Investment Earnings (in 1000's)	\$15,240	Monthly Investment Earnings (in 1000's)	\$7,037
7 Day Yield*	3.56%	7 Day Yield*	4.51%
One Month Yield*	3.83%	One Month Yield*	4.56%
Net Asset Value (per share)	\$1.00	Net Asset Value (per share)	\$1.00
Weighted Average Maturity	4	Weighted Average Maturity	36
*Yield Net of Fees		*Yield Net of Fees	

## Monthly Public Sector Rate Comparison

The Illinois Funds, MMF	3.83%	The Illinois Funds, Prime	4.56%
S&P Govt Inv Pool-Govt Fund Index	4.34%	S&P Govt Inv Pool-Taxable Funds Index	4.66%
IL School Dist Liquid Asset	NOT REPORTED	IL School Dist Liquid Asset Max	NOT REPORTED
3 Month Treasury Bill	3.05%	3 Month Treasury Bill	3.05%
6 Month Treasury Bill	3.33%	6 Month Treasury Bill	3.33%

## Monthly Private Sector Rate Comparison

The Illinois Funds, MMF	3.83%	The Illinois Funds, Prime	4.56%
IMoneynet™ - Govt. Institutional	3.77%	Federated Govt Obligations	4.40%
Fidelity - 695 Treas Fund	3.78%	Fidelity - 57 Govt Fund	4.50%
Goldman Fin Sq Treas Fund - 468	3.58%	Goldman Fin Sq Govt Fund - 465	4.51%
30 Day Time Deposit	4.35%	90 Day Time Deposit	4.51%

## FUND COMPOSITIONS

### Money Market Fund

88.1% - Repurchase Agreements  
9.8% - Money Market Funds  
2.1% - Certificates of Deposit  
0.0% - Treasury Bills  
0.0% - Treasury Notes

### Prime Fund

59.2% - Repurchase Agreements  
1.9% - Certificates of Deposit  
6.5% - US Government Agencies  
0.5% - Money Market Funds  
31.9% - Commercial Paper

### E-Pay Account Rate

2.912% 2/19/08

1-866-831-5240

[www.illinoisepay.com](http://www.illinoisepay.com)

### Rapid Revenue Acct. Rate

2.912% 2/19/08

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Visit our website at [www.illinoisfunds.com](http://www.illinoisfunds.com) for further information.



# Safety, Liquidity and Yield



Illinois Funds yields for the period ending 1/31/08

## Money Market Fund (Daily Liquidity)

## Prime Fund (7-day Liquidity) after 30-day minimum term

Net Portfolio Assets (in millions)	\$4,599	Net Portfolio Assets (in millions)	\$1,981
Monthly Investment Earnings (in 1000's)	\$13,066	Monthly Investment Earnings (in 1000's)	\$6,878
7 Day Yield*	2.35%	7 Day Yield*	3.68%
One Month Yield*	3.29%	One Month Yield*	4.20%
Net Asset Value (per share)	\$1.00	Net Asset Value (per share)	\$1.00
Weighted Average Maturity	3	Weighted Average Maturity	31
*Yield Net of Fees		*Yield Net of Fees	

## Monthly Public Sector Rate Comparison

The Illinois Funds, MMF	3.29%	The Illinois Funds, Prime	4.20%
S&P Govt Inv Pool-Govt Fund Index	4.13%	S&P Govt Inv Pool-Taxable Funds Index	4.51%
IL School Dist Liquid Asset	NOT REPORTED	IL School Dist Liquid Asset Max	NOT REPORTED
3 Month Treasury Bill	2.82%	3 Month Treasury Bill	2.82%
6 Month Treasury Bill	2.86%	6 Month Treasury Bill	2.86%

## Monthly Private Sector Rate Comparison

The Illinois Funds, MMF	3.29%	The Illinois Funds, Prime	4.20%
IMoneynet™ - Govt. Institutional	3.45%	Federated Govt Obligations	4.08%
Fidelity - 695 Treas Fund	3.22%	Fidelity - 57 Govt Fund	4.24%
Goldman Fin Sq Treas Fund - 468	3.17%	Goldman Fin Sq Govt Fund - 465	4.31%
30 Day Time Deposit	3.58%	90 Day Time Deposit	3.57%

## FUND COMPOSITIONS

### Money Market Fund

90.0% - Repurchase Agreements  
7.9% - Money Market Funds  
2.1% - Certificates of Deposit  
0.0% - Treasury Bills  
0.0% - Treasury Notes

### Prime Fund

66.7% - Repurchase Agreements  
1.8% - Certificates of Deposit  
5.8% - US Government Agencies  
1.7% - Money Market Funds  
24.0% - Commercial Paper

### E-Pay Account Rate

2.912% 2/19/08

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### Rapid Revenue Acct. Rate

2.912% 2/19/08

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